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SPECIAL ANALYSIS

POLAND: Shopping for Economic Aid

The USSR and Poland signed an agreement yesterday in Moscow that provides for increased Soviet deliveries of manufactured and food products to Poland in 1980. Although the details were not specified, the Poles will need much more aid from both East and West to underwrite the substantial costs of the strikes and the subsequent settlements.

The agreement came at the end of two days of talks between Soviet officials, including President Brezhnev, and a Polish economic delegation headed by Deputy Prime Minister Jagielski. The discussions--characterized as "warm and friendly"--and the agreement are a sign of Moscow's endorsement of the Kania regime.

The well-publicized discussions between Western leaders about the need to increase economic assistance to Poland may have compelled the Soviets to move quickly. Moscow apparently recognized the possible political costs of delaying aid to the new Polish regime. By moving rapidly, the Soviet leaders probably hope to increase their leverage over the direction of events in Poland.

The size of the eventual total Soviet aid package, which also could include direct hard currency loans and additional raw material deliveries at preferential prices, is likely to be determined by how closely Kania comes to enforcing the USSR's restrictive definition of the concessions made to the strikers. Jagielski's meetings with chief Soviet ideologist Suslov on Wednesday and Brezhnev yesterday probably focused on the political-economic tradeoff.

The unrest in Poland this summer and the subsequent settlements have greatly increased Poland's need for economic and financial assistance. The government estimates

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that these settlements will increase wage and benefit payments by at least \$3 billion a year. Moreover, to increase availability of consumer goods--including imports from the West--without seriously jeopardizing Poland's ability to finance its already huge hard currency trade deficit and debt service obligations will require substantial aid from abroad. [REDACTED]

Other Aid

Before the signing of the agreement, Moscow had taken some steps to assist Poland. To help salvage Poland's efforts to raise a syndicated loan--which would have collapsed if the total pledged had fallen below \$300 million--Soviet-controlled Western banks chipped in \$45 million last month to bring the eventual amount committed to \$325 million. Last week, Polish officials noted that Moscow was furnishing \$550 million in short- and medium-term credits, but these credits were initiated in May. [REDACTED]

Moscow also may be pressuring East European countries to assist Poland. Warsaw has announced that Czechoslovakia and East Germany have promised to send Poland unspecified additional quantities of raw materials, food, and consumer goods. A high-level Czechoslovak official, however, stated that aid to Poland will be limited in order to avoid shortages of consumer goods in Czechoslovakia's economy. [REDACTED]

Looking to the West

Poland will continue to look to the West for financial assistance and appears to be increasing its efforts in that direction. For example, Warsaw has made an urgent appeal for a quick decision on its request for substantial Commodity Credit Corporation credits. [REDACTED]

As Poland's borrowing needs are rising, however, its prospects for obtaining credits in the West have dimmed, primarily because of growing reluctance of banks to lend without government guarantees. The recent \$325 million Polish syndication was essentially a rollover operation,

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with the participating Western banks--except for the Communist-country-controlled banks--generally providing only as much as was soon to fall due to them. [REDACTED]

The strikes this summer and the regime's response to them have increased bankers' doubts about lending to Poland. The Western banks in the recent syndication told the Poles last spring that further lending depended on Poland's coming up with an effective stabilization program. Specifically, the bankers said the Poles must:

- Introduce more rational criteria for allocating investment.
- Rationalize prices.
- Give higher priority to improving the balance of payments.

Poland may still be able to meet the first condition, but satisfying the other two has become virtually impossible following the strikes. [REDACTED]

Warsaw evidently is aware of the severity of its external financial plight and has now explicitly raised the possibility of formal debt rescheduling with foreign officials. [REDACTED]

[REDACTED] Last month, a member of the Polish Government said that Poland probably would have to reschedule its debt. [REDACTED]

In seeking aid from both the USSR and the West, Poland faces the possibility that success with one will mean rejection by the other. The USSR will make loans conditional on slowing or reversing the liberalization ushered in by the strike settlements, while some Western aid may depend on Poland's holding the line on liberalization. [REDACTED]